HOUSING MARKET OUTLOOK
Peterborough CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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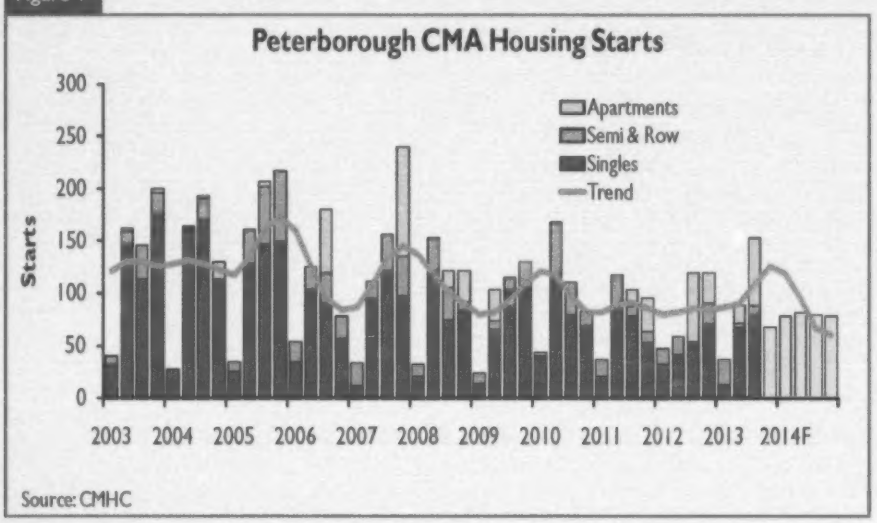
Highlights

- New home construction will be lower in 2014.
- Balanced market conditions will lead to modest growth in resale prices through 2014.
- Existing home sales will decline slightly in 2013 with gradual improvement through 2014.
- Purpose-built apartment vacancy rates will increase to 3.3 and 3.4 per cent in 2013 and 2014 respectively.

Figure 1



The forecasts included in this document are based on information available as of October 16, 2013.

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New Home Market: 2014 Starts will be lower than 2013 totals

The 2013 total housing starts in Peterborough CMA are forecast to remain in the mid-three-hundred range, which is in line with the 2012 totals, but below the ten-year construction average of 455 units. The pace of starts is closely correlated with the average 437 households that were formed annually between 2006 and 2011 according to the most recent Census data. The number of single-detached starts will be marginally above the 2012 results as Peterborough is a relatively inexpensive market. Other low-rise (semis and rows) home starts will remain similar to the previous year. A modest downtrend is expected in 2014 as relatively stagnant labour market conditions will limit any significant boost to housing starts. Single-detached starts that historically make up more than two thirds of total starts will continue to dominate the marketplace in 2014.

Population growth is a key factor determining the change in housing starts from one year to the next. The natural rate of population change in Peterborough CMA is negative, with deaths exceeding births. Therefore, net migration is the source of population growth. With unemployment rate at an all time high, the population growth and household formation will be slow and not as supportive of new construction demand as in previous years. Developers are projected to adapt to the new market reality, by delaying some new project openings and by more carefully choosing launch prices, unit mix, amenities and locations. Since income growth is expected to remain within one per cent on an annual basis, over the next two years developers' focus will be re-directed towards more affordable single-detached and row housing. Total housing starts in the CMA area will continue to follow their downward trend in 2014 and remain at historically low level for Peterborough.

Existing Home Market: Prices to remain steady through the forecast period

Balanced market conditions are expected to prevail over the next two years, putting little pressure on price growth. Most markets that the Peterborough and the Kawarthas Association of Realtors covers have been in balanced market territory since April 2011. Year-to-date average MLS® price was up by 1.4 per cent.

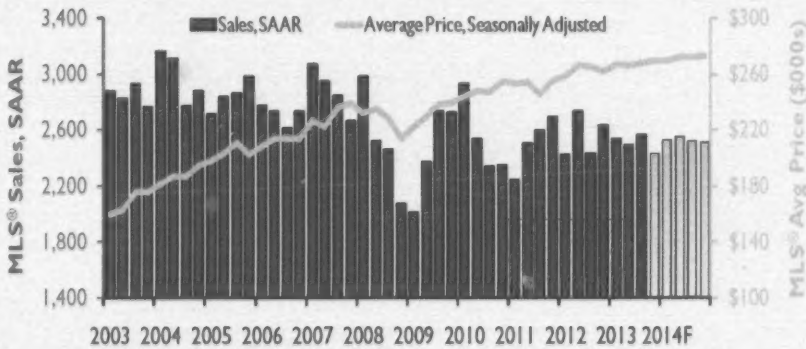
Year-to-date sales were down by 2.6 per cent. Single detached home sales that make up more than 87 per cent of all home sales fell by 4.2 per cent year-over-year. Limited employment growth between the end of 2012 and early 2013 resulted in reduced first-time buyer demand and lower sales in the first half of 2013.

Relatively soft employment trends, lower rates of net migration over the past year and a half will diminish sales activity. It is expected that this year sales will decrease by two percent. However, with gradual improvements in employment and household formation expect mild sales increases through 2014. Generally it takes three to six months between growth in employment and growth in sales. Better employment prospects will create additional demand from people looking for more affordable housing than what is available in neighbouring Durham region. Their decision to purchase tends to be influenced more by prices which will increase modestly over the next two years, helping to keep the door open for would-be homebuyers. On the other hand, modest price growth combined with higher mortgage rates will make it more difficult for repeat buyers to upgrade to more expensive homes.

Peterborough income growth has not kept pace with home price growth

Figure 2

Peterborough MLS® Sales* and Average Price*



Source: CMHC adapted from CREA (MLS®)

* Both sales and prices are seasonally adjusted. In addition, quarterly sales data are multiplied by 4 to show an annual rate

in recent years. According to the latest CMHC calculation, the income required[1] to carry a mortgage relative to actual income illustrates that housing has generally become more expensive in recent years. Higher prices contributed to an increase in required incomes, while wages grew at a relatively slow rate. In 2013 the cost of housing will be in line with 2012 numbers as both required and actual incomes will grow at a similar modest rate, but will virtually remain unchanged. It should be noted, that the average household in the Peterborough CMA is comfortably able to service a mortgage for the average resale home.

Rental Market: Supply is Up

Purpose-built apartment vacancy rates are expected to increase from 2.7 percent in 2012 to 3.3 and 3.4 per cent in 2013 and 2014 respectively. The increase reflects expectations for modest numbers of purposely-built rental completions.

According to Canada Mortgage and Housing Corporation's Spring 2013 rental market survey, the stock of rental apartments (universe) increased by almost one per cent in the Peterborough Census Metropolitan Area (CMA). It is the second highest increase among all Ontario CMAs, with only Hamilton CMA being slightly higher at 1.04 per cent. The increase directly affected vacancy rates, which moved higher to 3.4 per cent in April 2013 from 2.3 per cent in April 2012.

With unemployment rate above the Ontario average, fewer people are moving to Peterborough CMA. Some people are leaving the CMA area for better employment prospects in other areas of Ontario and Western Canada, keeping net migration at historical lows. It is unlikely, that demand for rental housing is going to keep up with the upcoming increase in rental supply, which will push Fall 2013 vacancy rates in upward direction.

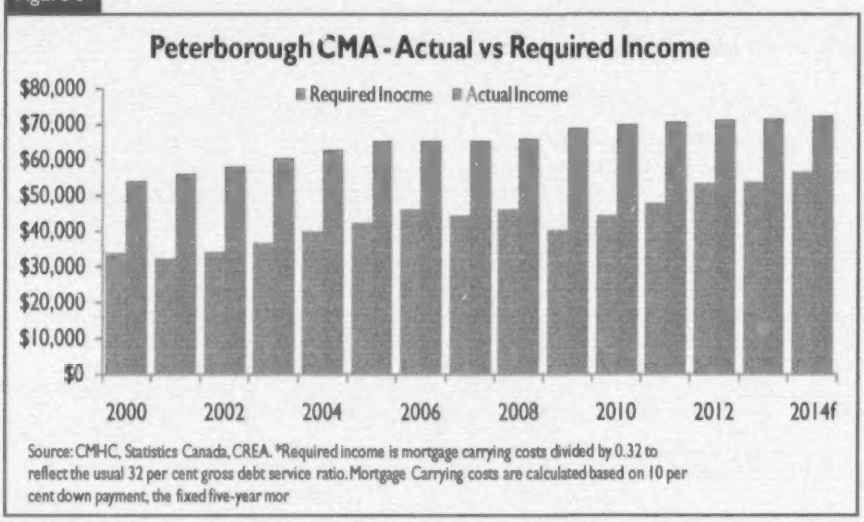
Slow employment and wage growth in 2013 implies that potential first time buyers will be less likely to make the transition from rental accommodation into homeownership. As rental demand edges down there will be fewer opportunities for property owners to increase rent. Combined with a lower Residential Tenancies Act (RTA) allowable guideline increase of 2.5 per cent in 2013 and 0.8 per cent in 2014 rent will grow at a slower rate. The monthly rent for two-bedroom apartment is expected to increase 1.2 per cent in 2013 and 0.5 per cent in 2014.

Economic Trends: Slow Job Growth Through 2013

The fundamental engines of housing demand, employment and population growth have been slowing down since June 2012. From April 2013 employment levels have gradually started to recover and expected to improve during the course of next year. Earnings should therefore continue to grow by close to inflation. This is good news as it cushions some of the impact of rising rates and rising home prices. However, it will be difficult to regain everything that has been lost in one year, keeping unemployment rate above Ontario average. Peterborough unemployment rate came down in September to 7.5 per cent, after hitting high mark of 11.9 per cent in May 2013.

Some sectors of the local economy will recover quicker, others will temper growth in employment next year. A continued shift towards

Figure 3



Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage Carrying costs are calculated based on 10 per cent down payment, the fixed five-year mor

[1] Required income is mortgage carrying cost divided by 0.32 to reflect the usual qualifying criteria of most lenders. Mortgage carrying costs are based on a ten per cent downpayment, the posted fixed five-year mortgage rate and 25 year amortization.

lower government expenditures will weigh on job creation in the public administration field. On the other hand, growing consumer and business spending will create jobs in the service sector. Another two fields that are contributing to an unemployment rate decrease from record highs are trade and construction. Workers in the skilled trades are currently in higher demand from companies such as McCloskey International, a manufacturer of heavy-duty machinery with on average over 10 active job postings on a monthly basis. The movement of the Seneca College Flight Training School to the Peterborough Airport will create jobs in education and transportation.

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2013. Slight increases are expected in 2014, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2013, the one-year mortgage rate is forecasted to be within 3.00 per cent to 3.50 per cent. For 2014, the one-year posted mortgage rate is expected to rise slightly and be in the 3.25 per cent to 3.75 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.50 per cent, consistent with higher employment and economic growth prospects in 2013.

Mortgage Rate Outlook

- Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards.
- Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates[2].
- CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.
- Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

Mortgage rates		
1 Year	Q3 2013	3.14
	Change from Q3 2012	0.04
	2013 (F)	3.00 - 3.50
	2014 (F)	3.25 - 3.75
5 Year	Q3 2013	5.27
	Change from Q3 2012	0.03
	2013 (F)	5.00 - 5.50
	2014 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2013 data

[2] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting." Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to increase gradually and steadily over the forecast horizon. However, they will remain low by historical standards.
Employment	Employment in Peterborough has been decreasing since June 2012 with nearly all decreases coming from the full time sector. However,
Income	Growth in incomes is expected to continue, albeit at a moderate pace due to modest economic growth in Canada and global markets.
Population	Low but positive net migration will stimulate demand for all types of housing over the forecast horizon.
Resale Market	Balanced market conditions are expected to prevail over the forecast horizon.
Vacancy Rates	The average vacancy rates are expected to increase slightly reflecting expectations for modest numbers of purposely-built rental construction.

Forecast Risks

This outlook is subject to some risks, including:

- Mortgage interest rates are still near their historical low. Should mortgage interest rates rise sooner or faster than expected by potential buyers and existing mortgage holders, this could lead to a lower level of activity in Canada's housing market and generate some financial risks for the more heavily indebted homeowner households in the medium to longer term.
- If unemployment was to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.
- A more muted recovery in the U.S. or weaker growth in emerging markets could negatively impact Canada's net exports and the country's overall economic outlook. A stronger-than-expected U.S. economic recovery or stronger growth in emerging countries could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing market.

Forecast Summary Peterborough CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	306	239	197	210	6.6	190	-9.5
Multiples	98	112	146	135	-7.5	130	-3.7
Semi-Detached	16	6	2	5	150.0	5	0.0
Row/Townhouse	78	58	50	45	-10.0	65	44.4
Apartments	4	48	94	85	-9.6	60	-29.4
Starts - Total	404	351	343	345	0.6	320	-7.2
Average Price ($):							
Single-Detached	313,278	330,749	327,943	328,000	0.0	330,000	0.6
Median Price ($):							
Single-Detached	289,000	289,990	293,990	295,000	0.3	299,000	1.4
New Housing Price Index (% chg. Ontario)	2.4	3.6	4.1	n/a	-	n/a	-
Resale Market							
MLS® Sales	2,537	2,507	2,553	2,505	-1.9	2,530	1.0
MLS® New Listings	5,032	5,043	4,843	4,840	-0.1	4,870	0.6
MLS® Average Price ($)	249,763	254,604	264,946	268,000	1.2	272,000	1.5
Rental Market							
October Vacancy Rate (%)	4.1	3.5	2.7	3.3	-	3.4	-
Two-bedroom Average Rent (October) ($)	890	899	904	915	-	920	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	57,200	57,700	59,300	55,400	-6.6	57,200	3.2
Employment Growth (%)	-3.4	0.9	2.8	-6.6	-	3.2	-
Unemployment rate (%)	9.7	9.4	8.2	10.1	-	9.5	-
Net Migration	972	333	298	285	-4.4	300	5.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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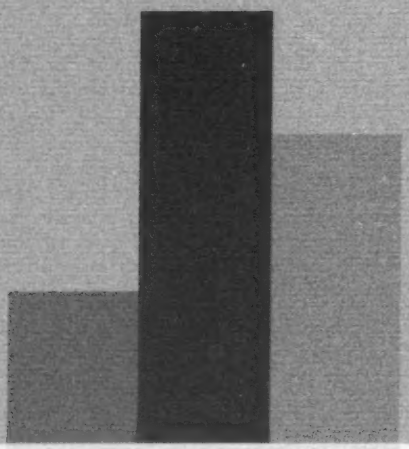

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